

RATING ACTION COMMENTARY

Fitch Rates LA County' \$579.5MM Lease Revs 'AA+'; Outlook Stable

Wed 14 Aug, 2024 - 4:43 PM ET

Fitch Ratings - San Francisco - 14 Aug 2024: Fitch Ratings has assigned a 'AA+' rating to the following county obligations:

--\$579,525,000 Los Angeles County Public Works Financing Authority (the authority), lease revenue bonds, 2024 series H.

The Rating Outlook is Stable.

Proceeds of the lease revenue bonds will be used to finance the construction of Phase I of the Harbor-UCLA Medical Center Replacement Project, repayment of outstanding commercial paper notes issued in connection with the replacement project, and current refunding the county's outstanding 2015 lease revenue bonds. The bonds are expected to price August 22nd.

The 'AA+' rating on the Los Angeles County Public Works Financing Authority's lease revenue bonds is one notch below the 'AAA' Issuer Default Rating (IDR) on Los Angeles County (the county) due to the slightly higher degree of optionality associated with lease payments subject to appropriation.

The county's 'AAA' IDR incorporates the county's 'aaa' financial resilience, 'midrange' demographic and economic level metrics, including median household income (MHI), educational attainment and unemployment rates, 'weak' population trend as well as a 'strong' long-term liability burden on a composite basis.

The rating additionally reflects the application of a one-notch positive additional analytical factor recognizing the county's role as the center of an important and growing MSA with a

vital role in the national economy. The Los Angeles-Long Beach-Anaheim, CA MSA is the second largest in the U.S. and generates 5.4% of US GDP.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Failure to implement available policy measures, as needed, resulting in reduced available reserves sustained below 15% of spending, in turn resulting in an 'aa' financial resilience assessment;

-- A 10%-15% increase in long-term liability burden metrics without a commensurate increase in personal income or governmental revenues and expenditures;

-- Weakened demographic and economic performance including but not limited to population loss, rising unemployment and lower MHI.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- Not applicable due to the 'AAA' IDR, which is the highest rating.

SECURITY

The 2024 lease revenue bonds are payable from lease rental payments made by the county, subject to appropriation, pursuant to a master lease, which includes 10 properties located throughout the county, including a library, courthouses, and sheriff station among others. The project being financed is not part of the master lease.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the Model Implied Rating will be the IDR except in certain circumstances explained in the applicable criteria). The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher ('AAA'), 9.0 ('AA+'), 8.0 ('AA') and so forth down to 1.0 ('BBB-' and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile, and a structured framework to account for Additional Analytical Factors not captured in the MP that can either mitigate or exacerbate credit

risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Los Angeles County Model Implied Rating: 'AAA' (Numerical Value: 10.15)

-- Metric Profile: 'AA+' (Numerical Value: 9.15)

-- Net Additional Analytical Factor Notching: +1.0

Individual Additional Analytical Notching Factors:

-- Economic and Institutional Strength: +1.0

Los Angeles County's Model Implied Rating is 'AAA'. The associated numerical value of 10.15 is at the lower end of the range for its current 'AAA' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'aaa'

Los Angeles County's financial resilience is driven by the combination of its 'Midrange' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'Midrange' budgetary flexibility assessment.

-- Revenue control assessment: Midrange

-- Expenditure control assessment: Midrange

-- Budgetary flexibility assessment: Midrange

-- Minimum fund balance for current financial resilience assessment: $\geq 15.0\%$

-- Current year fund balance to expenditure ratio: 23.7% (2023)

-- Five-year low fund balance to expenditure ratio: 19.5% (2023)

Revenue Volatility - 'Strong'

Los Angeles County's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 0.4% decrease for the three-year period ending fiscal 2011

-- Median issuer decline: -4.5% (2023)

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Weakest'

Based on the median of 10-year annual percentage change in population, Los Angeles County's population trend is assessed as 'Weakest'.

Population trend: -0.0% 2022 median of 10-year annual percentage change in population (11th percentile)

Unemployment, Educational Attainment and MHI Level - 'Midrange'

The overall strength of Los Angeles County's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Midrange' on a composite basis, performing at the 41st percentile of Fitch's local government rating portfolio. This is due to high education attainment levels offsetting midrange median-issuer indexed adjusted MHI and high unemployment rate.

-- Unemployment rate as a percentage of national rate: 138.9% 2023 (16th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 34.6% (2022) (63rd percentile)

-- MHI as a percent of the portfolio median: 97.1% (2022) (46th percentile)

Economic Concentration and Population Size - 'Strongest'

Los Angeles County's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the MP are most pronounced for the least economically diverse issuers (in the fifth percentile for the metric or lower).

The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 9,719,765 (2022) (above the 15th percentile)

-- Economic concentration: 15.5% (2023) (above the 15th percentile)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

LONG TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Strong'

Los Angeles County's carrying costs to governmental expenditures has improved while liabilities to personal income remain midrange and liabilities to governmental revenue remain strong. The long-term liability composite metric in 2023 is at the 66th percentile, indicating a somewhat lower liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 4.6% Analyst Input (58th percentile) (vs. 4.1% 2023 Actual)

-- Liabilities to governmental revenue: 109.2% Analyst Input (81st percentile) (vs. 98.5% 2023 Actual)

-- Carrying costs to governmental expenditures: 13.0% Analyst Input (63rd percentile) (vs. 13.7% 2023 Actual)

Analyst Inputs to the Model

Direct debt has been conservatively adjusted to reflect the potential for an additional \$3 billion in long-term debt in connection with the settlement of lawsuits in connection with

California's The Child Victims Act, as well as to reflect principal amortized during fiscal 2024. Debt service has been adjusted to reflect additional estimated debt service from a potential \$3 billion in long-term debt to finance the settlements using 20-year amortization and a 5% interest rate. Pursuant to the criteria, the OPEB contribution has been reduced from the full contribution, including payments to the trust, to reflect just what would be the pay-as-you-go amount.

PROFILE

Los Angeles County is a major economic and manufacturing center, and incorporates two ports and an airport that are typically among the busiest in the world. Taxable assessed value has had strong growth in the past decade after very small recessionary declines, reflecting the county's highly developed and mature tax base and large Proposition 13 cushion with a significant, albeit slowly declining, portion of properties listed on the tax roll at well below market value. While most recent growth has been tied to ownership transfers of existing properties and inflation, ongoing new development and redevelopment projects continue to support future tax base growth.

The Los Angeles County Public Works Financing Authority issues lease revenue bonds to finance county capital projects. The 2024 lease revenue bonds are payable from lease payments made by the county for use and occupancy of ten essential county facilities located throughout the county.

DATE OF RELEVANT COMMITTEE

05 June 2024

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more

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APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[U.S. Local Government Rating Model, v1.2.0 \(1\)](#)

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Los Angeles County Public Works Financing Authority (CA)

EU Endorsed, UK Endorsed

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